



**COUNCILMEMBER DONNA FRYE**

**City of San Diego  
Sixth District**

**MEMORANDUM**

**08-07**

**DATE:** February 19, 2008

**TO:** Mayor Jerry Sanders  
Lakshmi Kommi, Director, Debt Management  
Jim Barrett, Director, Water Department

**FROM:** Councilmember Donna Frye

**SUBJECT:** Item-331: Water System Financing (2008A Notes)

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Please be prepared to answer the following questions regarding today's requested action on Item-331: Water System Financing (2008A Notes):

1. In January 2007, the City Council authorized the private placement of \$57 million of two year Notes. What is the plan to pay off the Notes in February 2009 if the City cannot enter the public markets and how much would be due?
2. If the City Council approves the issuance of the 18-month 2008A Notes for \$150 million and the City cannot enter the public market, what is the plan to pay off the Notes in August 2009 and how much would be due?
3. It is my understanding from questions asked of the debt financing team, that Water Department debt is not subject to debt limits because it is a fee and not a tax. Is this correct? If yes, what is the legal basis for this determination?
4. In response to questions I raised last week, Ms. Kommi and Mr. Barrett responded in a February 15, 2008, memo that the gross debt service for the water department will be 13.1%. Is this percentage high, low or about average and how do you make that determination?
5. In the same memo, Item #4 lists revenue sources. Please explain the entries titled "Change in Anticipated Contributions" and "Services Rendered to Others." Also please explain the \$63 million in bond proceeds for 2008 and the \$153 million for 2009.

6. In the documents provided in the docket, please refer to City Clerk page # 000611. There are 60 projects listed that were to be funded with proceeds from the 2007A Notes. Is this list accurate and have the projects been funded or have costs exceeded the estimates?

7. Also on City Clerk page # 000611 it shows that 11 of the projects with a cost of approximately \$2.684 million were grant funded. Is that correct? If so, why are they shown in the list titled "Projects to be funded with proceeds from 2007A Notes?" Were any of the grant funded projects paid with proceeds from the 2007A Notes?

8. The Mayor established an Independent Rates Oversight Committee (IROC) last year to "safeguard ratepayer funds used in the City's water and wastewater departments." One of their tasks included reviewing the "reports from staff and their independent audit organizations on rate and bond proceed expenditures." Has the IROC reviewed these documents ( 2008A Notes) or the expenditures made with proceeds from the 2007A Notes? If so, is there a report?

9. How much money is in the "Dedicated Reserve from Efficiency and Savings" fund that was established as part of the Mayor's ratepayer safeguard plan?

10. On City Clerk page # 000614 there is a list of projects shown that will be funded with proceeds from the 2008A Notes. There is also a list of projects shown on City Clerk page # 000735 titled Exhibit A. Are these lists accurate and complete? Why is neither list included as Exhibit A of the Indenture (City Clerk page #000661) as indicated in the text on page 12 (City Clerk page # 000676)? Please explain why grant funded projects are shown on one list but not on the page titled Exhibit A. Please discuss in greater detail the columns shown on Exhibit A titled "Estimated Completion Date" and "Useful Life." Finally, the last column on City Clerk page # 000614 is titled "Total Project Cost." Is this the amount needed to complete the project?

11. The Independent Budget Analyst issued a report, #08-16, on February 14, 2008. In that report it states that both the City Attorney and the City's Bond Counsel believe that City Charter Sections 90 and 90.1 do not apply to this transaction. Is that correct? Is there a written legal opinion?

12. City Clerk page #006659 is a list of items that have yet to be provided in the Indenture (Log of Outstanding Items). This log includes the need for a signature from the JPA. What is the JPA and who is the trustee who needs to sign this? Are they here today? Please explain the other outstanding items shown on this log.

13. Are there any other outstanding items for any of the other documents? If so, what are they and when will that information be provided?

14. Has Macias & Gini reported any material findings in the 2005 CAFR regarding the City's Water Department, such as weaknesses in internal financial controls, problems with State Grants or loans, etc? If so what are they and have these items disclosed properly in the 2008A Notes?

CC: Honorable City Councilmembers  
City Attorney, Michael Aguirre  
Independent Monitor, Stanley Keller  
Independent Budget Analyst, Andrea Tevlin  
Anthony Neequaye, CPA, Macias, Gini, & O'Connell